

# Who Benefits from the Child Tax Credit?

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**T**ax benefits for children are a central component of the social safety net in the United States. Among the most important is the child tax credit (CTC), which, besides a temporary one-year expansion during 2021, provides up to \$2,000 per child under the age of 17. Unlike the earned-income tax credit, which is a tax credit specifically targeted at lower-income households with children, the CTC affects a much broader range of the income distribution, with the full credit amount available to households earning as much as \$400,000. While there is scant research on the effect of the CTC itself on child outcomes, cash transfers of this form (like the earned-income tax credit) have been shown to improve children's health and educational outcomes. However, many low-income children in the United States do not benefit from the CTC, and among those who do benefit, some face limitations that prevent them from receiving the full credit amount.

In our research, we investigate which children benefit from the CTC and which children are excluded. Our focus is on the version of the CTC that was in place during 2020 and that is on the books for 2022—the year in which the temporary 2021 expansion is scheduled to expire. In particular, we focus on three elements of the CTC rules. First, we consider the rules setting out a taxpayer's eligibility to claim a particular child; loosely speaking, only children who live with a close family member can be claimed for the CTC. Second, only taxpayers with sufficient earned income can receive a tax refund from the credit, and the maximum amount of their refund depends on how much income they earn. Third, only \$1,400 of the maximum \$2,000-per-child credit is refundable, which limits the full credit to taxpayers who have sufficient tax liability. We study the distributional effects of these individual rules as well as their interaction with one another.

To understand the operation of these rules, we draw on the Annual Social and Economic Supplement of the Current



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Population Survey to estimate which children benefit from the CTC. Based on this analysis, we classify children into three categories: (1) ineligible children, who cannot be claimed for any CTC; (2) partially eligible children, who can be claimed for some (but not all) of the full credit amount; and (3) fully eligible children, who can be claimed for the full CTC amount.

We then compare the characteristics of the children that fall into each of these categories. We document striking differences in patterns of CTC eligibility based on a child's race. Approximately three-quarters of white and Asian children are eligible for the full CTC, compared with only about half of black and Hispanic children. Black children are particularly unlikely to be eligible for the CTC, constituting one in four ineligible children, despite representing only 14 percent of all children.

We next investigate differences in the distribution of the CTC's benefits by income. Because CTC refundability is tied to earnings and tax liability, it is not surprising that we find large differences in eligibility across the income distribution. The vast majority of those in the bottom decile of the national adjusted gross income (AGI) distribution are completely ineligible for the CTC, and the majority of filers in the bottom 30 percent of the distribution are only eligible for a partial credit. By contrast, virtually all children in the top half of the AGI distribution are eligible for the full credit. Finally, we investigate differences in eligibility based on household structure. We find that children under six are less likely to be eligible for the full credit than teenage children and more likely to be eligible for a partial credit, though rates of ineligibility were similar across childhood. We also document large differences in eligibility based on whether the child's parents are married and in particular whether the child's father is present in the household.

We next investigate the role of various CTC rules in generating these differences in children's CTC eligibility. To do so, we simulate how eligibility for the credit would change under reforms that eliminate a particular rule or combination of rules. We find that the relationship test disproportionately limits benefits for Hispanic children and mainly excludes children who live in low-income households. Removing this

constraint would render about 2 million more children eligible for the credit. By comparison, removing the earnings test, which limits refundability—essentially creating a (nearly) universal child benefit for all families living with related children under age 17 and with AGI below the current law thresholds—would affect many more children (5.9 million children would become eligible), particularly black children and children residing in very low-income households. Removing the \$1,400 refundability cap would also help families with lower-than-average incomes but with somewhat higher incomes than those affected by the other reforms. Additionally, removing the refundability cap would not increase benefits among those currently ineligible. Finally, we find that removing the relationship test and refundability limits to make the credit nearly universal for low- and middle-income children would benefit approximately 23 million children, primarily those growing up in the lowest-income households.

Our results provide evidence that can inform ongoing policy debates about child allowances in the United States. The CTC was reformed and expanded by the 2017 Tax Cuts and Jobs Act, and there have been a number of recent legislative proposals to further expand the credit, either in size or in the scope of which children it covers. Our work contributes to this discussion by providing new statistics concerning the operation of the current CTC and by shedding light on how various policy reforms would affect children. Our analysis also complements recent research by focusing on the distribution of benefits among all children, some of whom may not be claimed on tax returns due to the limitations we study. Outside the specific context of the CTC, our results contribute to the literature investigating differences in the distribution of tax benefits by race, notwithstanding the tax code's nominal race neutrality.

## NOTE

This research brief is based on Jacob Goldin and Katherine Micheltore, "Who Benefits from the Child Tax Credit?," NBER Working Paper no. 27940, October 2020, <https://www.nber.org/papers/w27940>.



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